



Treasury Inspector General for Tax Administration

THE PROCESS TO SEPARATE JOINT TAX ACCOUNTS FOR INNOCENT SPOUSE CASES HAS BEEN IMPROVED; HOWEVER, ADDITIONAL ACTIONS ARE NEEDED

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Highlights

Highlights of Report Number: 2007-40-053 to the Internal Revenue Service Commissioner for Wage and Investment Division.

IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) separates joint tax accounts to help protect Innocent Spouses from collection enforcement actions against the spouses who owe the liabilities. The IRS has taken a number of actions to improve this process so enforcement actions are suspended on the Innocent Spouse and continued on the other spouse. However, IRS employees did not always ensure proper actions were taken (or taken timely) on taxpayer accounts while Innocent Spouse claims were being processed.

WHY TIGTA DID THE AUDIT

This audit was initiated to evaluate the new "mirroring" process of separating joint tax accounts while the claims were being processed, to protect the rights of spouses requesting relief.

Because of limitations in the original IRS computer system, it was difficult for the IRS to process Innocent Spouse claims and properly show each spouse's separate tax liability. It was also difficult to stop collection enforcement actions against the taxpayer requesting Innocent Spouse relief and to continue collecting from the other spouse, who owed the tax liability. The IRS implemented programming changes (the mirroring process) to help treat each taxpayer separately and ensure the rights of both taxpayers, as well as the Federal Government's interests, are protected.

WHAT TIGTA FOUND

IRS employees did not ensure proper actions were taken or taken timely in 27 percent of the taxpayer accounts reviewed. The IRS did not always take action or take timely action to:

- Suspend collection activity against the taxpayer requesting Innocent Spouse relief.

- Resume collection activity for the nonrequesting spouse.
- Prevent refunds from being issued to the nonrequesting spouse.
- Allow refunds to be issued to the nonrequesting spouse once the tax liability had been fully paid.

During our review, IRS management recognized that there was a high error rate related to inputting transaction and action codes when separating joint accounts and took actions to address the problem, including the following:

- Established account processing guidelines.
- Refined computer programs to resolve transaction posting issues.
- Established inventory and unpostable case lists to monitor accounts.
- Conducted training.

These steps should help reduce the number of transaction and action codes that are not properly input to taxpayers' accounts during the mirroring process. However, based on the results of our sample, the actions taken thus far have not eliminated all the input errors.

Many of the errors identified could have been prevented if IRS management had ensured employees effectively monitored and worked their inventory and unpostable lists. However, IRS managers only spot checked case lists for trends or obvious problems, which did not appear to be adequate to ensure problems were resolved.

As a result, some taxpayers requesting Innocent Spouse relief may not have been protected from enforced collection actions, and the Federal Government's interests may not have been protected.

WHAT TIGTA RECOMMENDED

TIGTA recommended the IRS establish a consistent, formal methodology for managerial reviews of inventory and unpostable case lists to ensure any identified issues are resolved by IRS employees.

IRS officials agreed with our recommendation and will establish criteria for and begin managerial reviews of inventory and unpostable case lists.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200740053fr.pdf>.